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SUBJECT: GEORGIA-CHINA: TRADE AND ECONOMIC RELATIONS

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Classified By: Ambassador John F. Tefft for reasons 1.5 (b) and (d).

11. (C) Summary. On June 28, press reports announced that Chinese buyers purchased Tbilisi's central supermarket. The news sparked mild protests by some Georgians who feel threatened by increasing Chinese immigration and investment in Georgia, which is a natural outgrowth of Georgia's efforts to increase foreign direct investment (FDI) to develop the economy. China and Georgia have bilateral economic agreements dating back to 1993. Chinese FDI totaled USD 51 million from 2002 to 2006, and investors are in diverse sectors such as energy, transportation, logging, and retail. The number of Chinese immigrants living in Georgia is unclear, but estimates range from the over 300 officially registered residents to unconfirmed press reports of 10,000. Current trends suggest Chinese immigrants will continue to come and stay as long as there is money to be made. End Summary.

Bilateral relations and FDI  
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12. (U) China and Georgia have bilateral economic agreements dating back to 1993. They touch on cooperation in technical and economic matters, trade, tourism, visa regimes, maritime, double taxation avoidance, and construction. China has given several grants and credits totaling over USD 9 million to Georgia since its independence. These helped establish the Georgian Embassy in China in 2004 (USD 600,000), forgave Georgia's debt to China in 2005 (USD 2.4 million), equipped Georgia's Finance Ministry in 2006 (USD 2.5 million), and provided a 20-year interest free credit in 2001 (USD 3.7 million). Today, GoG officials are courting Chinese investment, as evidenced by Minister of Economic Development Giorgi Arveladze's visit to Beijing in late 2006 for the China-Georgia business forum. Chinese FDI in Georgia totaled USD 51 million from 2002 to 2006, representing 1.4 percent of overall FDI and ranking 16th behind the U.S., U.K., Turkey, Azerbaijan, Russia, Kazakhstan, and others. Total trade - 113.7 million in 2006 - grew 117 percent from 2005. Imports increased 121 percent. Copper and ferroalloy scrap made up 97 percent (USD 9.7 million) of 2006 exports to China, with wine coming in second at 2.3 percent (USD 200,000).

Energy interests  
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13. (C) In 2003, Chinese invested nearly USD 20 million into the Khadori Power Plant, near the Pankisi Gorge, constructed

that year. Liu Hiaohui and You Yimou, Chinese Embassy officials, told Econoff the plant was built by a Chinese enterprise with credit from the Chinese export-import bank, and represents the largest single project in Georgia for the Chinese. The Chinese Embassy officials said other Chinese companies are poised to invest in Georgia, but only if the Khadori plant becomes a success. According to Liu, former President Shevardnadze's administration promised to buy all the electricity produced by the plants and maintain a tariff to customers of 4.66 cents per KW. Now, however, the tariff is less than 4 cents per KW, and the project likely won't be financially viable. Both Liu and You emphasized the GoG should "give good treatment to the project and make it profitable." According to Steve Yu, a Chinese community leader, the Chinese chose the wrong place to build a hydro station, saying winter has no rain and summer brings floods. Further, the current government is allowing the market to set the price for electricity. Despite the concerns of Liu and You, however, interested Chinese investors are not deterred by the apparent lack of success in the power plant.

#### Transportation and logging

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14. (C) More recent investments are in the transportation and logging industries. In early June, the Georgian Railway signed a USD 16 million agreement with a Chinese-Georgian joint venture ElektroVagonShemketebeli (Electric Carriage Repair Plant) to purchase trains for the first time in 33 years. The Chinese side will supply the train interiors. Other Chinese investors are looking beyond the interior design of train cars. Upcoming changes to the Law on Privatization will allow privatization of the state railroad company, previously marked as a strategic security asset, and according to press reports the GoG has had discussion with the Chinese. Other interests are in logging. In May a Chinese-Georgian joint venture - Wood and Industrial Development Ltd - paid USD 1.73 million in a controversial

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auction of logging rights to cut 31,000 cubic meters per year in the Tsalenjikha and Chkhorotsku forest districts in the Samegrelo region. Opponents to the long-term lease contend the GoG should have done a full inventory of its forest assets before leasing them. The GoG claims the license requires the investors to finish the inventory. The license also requires a 90 percent local workforce. The joint venture likely will supply a nearby Chinese-Georgian sawmill, which currently employs 100 local workers.

#### Retail

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15. (U) Chinese shops are popping up all over Georgia, including in Zugdidi near Abkhazia. In May, Chinese and Japanese investors purchased the central market of Gali in Abkhazia for USD 150,000 paid to the de facto authorities; Moscow Mayor Yuri Luzhkov originally introduced the investors to the region. The press reported the investors will pay USD 50,000 to the Abkhaz separatist regime and pay an annual fee of 8 percent of the market's profit. Chinese investors also plan to build a department store in Sukhumi. Press reports on June 28 announced that Chinese buyers purchased Tbilisi's central supermarket. The announcements sparked mild protests by some Georgians, including opposition groups, who feel threatened by increasing Chinese investment and immigration in Georgia.

#### The accidental immigrant

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16. (C) One of the first Chinese immigrants, Steve Yu, came to Georgia eight years ago from China on a short-term business trip to help a friend in the timber industry. Having no plans to stay, he returned to his home in China. Within a short time, however, he lost his job in China and returned to

Georgia. He opened two Chinese restaurants, and later started a pig farm in Mskheta. Now he has a Georgian wife, has made a name for himself, and is the "godfather" of sorts among the local Chinese merchants. He runs the Chinese Commodity Center, opened in fall 2006, across from the main Tbilisi supermarket. Chinese merchants throughout Georgia purchase Chinese goods at wholesale in the market, which is a collection of 50 shops. Chinese wholesalers procure products in China and ship them in containers to Poti port, which takes 30-35 days. Yu says Georgia is attractive because merchants can charge double for goods in China. However, Yu said Georgian customs poses the biggest hurdle, but only for Chinese merchants. As an example, he said there might be two identical containers with identical products. The Chinese-owned container will be valued twice the value of the Georgian-owned container. Yu estimates that one family-owned shop can sell two shipping containers of products in one year. He estimates that about 300 containers destined for Chinese shops, worth approximately USD 50,000 each, enter Georgia annually for a total of USD 15 million in products. Yu said there are between 100 and 150 small Chinese-owned shops throughout Georgia, with about 60 in Tbilisi alone.

17. (C) Official immigration statistics are unavailable. However, the Civil Registration Agency in the Ministry of Justice has records of 199 Chinese who registered in 2006 - the first year such registration was available - as temporary residents. In the first quarter 2007, 119 registered. These numbers represent the lower bound for estimating the number of Chinese immigrants, but do show a marked increase in the rate of registration. The true number is higher. Unconfirmed reports place the total number of Chinese immigrants at 10,000, but Yu thinks the number is much smaller. He bases his estimates on knowledge gained through his personal network of contacts. He said only two years ago there were less than 50 Chinese in Georgia, but that number rapidly is increasing. He attributes some of the increase to Chinese living in Europe looking for a fresh market with less competition. Approximately 100 of last year's arrivals came from the Balkans and about 30-40 came from the Czech Republic and in turn brought their relatives from China. He estimates there are now 600-700 Chinese living in Georgia, including those working for the Chinese Embassy. He said last year border guards estimated about 3000 Chinese exited and entered Georgia -- some like himself with multiple trips. He also said the Chinese Embassy issued about 3500 visas last year for Georgian residents -- including third-country nationals -- to visit China. According to some local Chinese shop owners, the Chinese government actively promotes emigration. These shop owners were interested in emigrating from China, picked Georgia as their destination country, received

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Georgian language training, and were released from the two-child rule.

Comment: Fear of the "Incomprehensible"

18. (C) Comment. There is an increasing buzz of mistrust and fear of Chinese immigrants in the Georgian press. Georgians worry a mass influx of a people with a completely unknown culture will threaten its demographic distribution and national security -- at a time when the Georgian population probably is decreasing. The word for "Chinese" in the Georgian language has been used for years as an adjective to describe something completely incomprehensible. Whereas increased investment from Kazakhstan and other Central Asian countries also brings immigrants, Georgia has a historic context with them as part of the former Soviet Union that it does not with China. As Georgia markets itself abroad as a destination for FDI, GoG leadership at home will need to manage effectively a public increasingly fearful of being overrun by an unknown culture. Steve Yu said most Chinese he knows do not like living in Georgia because they perceive their standard of living to be lower here than in China. It

is likely that as long as there is money to be made in Georgia, however, they will continue to come and stay. End Comment.

TEFFT